

Ms. Sally Hoffart
Arbors at New Castle
32 Buena Vista Drive
New Castle, DE 19720

RE: Audit of the Statement of Reimbursement Costs for Skilled and Intermediate Care Nursing Facilities – Title XIX for June 30, 2006

Dear Ms Hoffart,

We have audited the Statement of Reimbursement Costs for Skilled and Intermediate Care Nursing Facilities – Title XIX, pages 2 through 6 (the Cost Report) and the Nursing Wage Survey (the Survey), for Arbors at New Castle (the Facility) for the year ended June 30, 2006, and issued our report thereon dated November 19, 2008.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America.

There were no deficiencies in internal control over financial reporting that we consider to be material weaknesses, nor were there any instances of noncompliance or other matters that were required to be reported under *Government Auditing Standards*.

However, during our audit, we noted certain matters involving instances of immaterial noncompliance and nonreportable conditions or other matters involving internal control over reporting that came to our attention. The following summarizes our comments and suggestions regarding those matters. We previously reported on the Facility's internal control in our report dated November 19, 2008. This letter does not affect our report dated November 19, 2008 on the Facility's Cost Report and Survey

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CONDITION 06-01

Condition: Certain assets selected for testing which were acquired during the fiscal year ended June 30, 2006 had useful lives that differed from the AHA guidelines.

Criteria: The useful lives of assets for Medicare and Medicaid purposes is set as a guideline for facility's capitalization policy

Cause: Management has not followed these guidelines consistently.

Effect: There is the potential for overstating or understating the costs for the year depending on the various lives chosen for the assets.

Suggestion: Management should assign useful lives consistent with AHA guidelines. Management has since have informed us that they have since implemented this policy.

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CONDITION 06-02

Condition: In its plant ledger, the facility includes several assets which cost less than \$5,000, the allowable capitalization minimum for Medicare and Medicaid purposes. All assets in the plant ledger must be depreciated over their estimated useful lives, requiring several years before costs can be recovered through Medicare and Medicaid reimbursement. Further, the added volume of assets increases the recordkeeping burden of maintaining the plant ledger.

Criteria: The allowable capitalization minimum for Medicare and Medicaid purposes is set as a guideline for facility's capitalization policy.

Cause: Management has not followed the capitalization guidelines consistently.

Effect: By capitalizing costs under \$5,000, the facility is understating costs for which they could be reimbursed in the current year's cost report. In addition, by spreading the depreciation expense over several years, the following years' costs will be overstated.

Suggestion: Management should consider increasing its capitalization floor to \$5,000 to allow increased reimbursement in the year of smaller asset purchases and reduce the future burden of maintaining its plant ledger.

CONDITION 06-03

- Condition: The Facility incorrectly included nonproductive salaries in Employee Benefits on the Medicaid Cost Report. Nonproductive salaries should be included on the appropriate cost centers' salary expense line on the Medicaid Cost Report.
- Criteria: The Medicaid Cost Report Instructions state benefits lines should not include any wages paid for vacation leave, sick leave, or other non-productive time.
- Cause: Non-productive salaries were not classified into the appropriate line.
- Effect: Certain line items on the Cost Report were overstated and others were understated.
- Suggestion: Management should correct its allocation calculation to classify these expenses as salaries expenses, which will be recorded as part of total salaries expense.

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CONDITION 06-04

- Condition: The Facility incorrectly included other taxes in the property tax line item of the Medicaid cost report.
- Criteria: The Medicaid Cost Report Instructions state that other taxes and licenses should be included in Line 31 – Other.
- Cause: Other taxes were misclassified in Line 35 – Property Taxes.
- Effect: The Administrative Cost Center was understated, and the Capital Cost Center was overstated.
- Suggestion: Management should only record property taxes in the property tax line of the Medicaid cost report.

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CONDITION 06-05

- Condition: The Facility incorrectly included help wanted advertising costs in the Other Administrative Costs line item of the Medicaid cost report.
- Criteria: The Medicaid Cost Report Instructions state that Other Administrative Costs in the Primary Cost Center include fees paid to hire and locate staff.

Cause: Advertising costs were classified in the wrong Cost Center.

Effect: The Administrative Cost Center was overstated and the Primary Cost Center was understated.

Suggestion: Management should record help wanted costs in the Other Primary Costs line item of the Medicaid cost report..

We would be pleased to discuss these comments and suggestions in further detail at your convenience.

McBride, Shogan & Co

Wilmington, Delaware
November 19, 2008